The Year Everybody Got Wrong

Q4 2025 Client Letter

One of the most dangerous behaviors in investing is flocking to the side of the boat that is already tipping under the weight of consensus. It is important to understand the difference between a popular narrative and the actual reality of how that narrative might play out. As we close the books on 2025, we are presented with a stark reminder of just how wrong the collective wisdom of investors, economists, and analysts can be at times. Entering this year, the financial world was brimming with certainty, which means many outcomes were effectively priced in. This is why markets swing violently when surprise headlines hit, like the hardline tariff announcements earlier this year. Not because the fundamentals suddenly break, but because current investor positioning, expectations, and algorithms all react at once. We must recognize that once a narrative becomes universal, the marginal buyer effectively evaporates. Ultimately, asset prices are not driven by opinion, but by the necessity of capital flow. In turn, with roughly 80% of U.S. companies largely insulated from goods-based tariffs, investors who focused on the facts instead of fear and bought the 20%+ “liberation day” dip saw asset prices adjust very quickly as the peak of the panic passed. Humans are prone to making irrational decisions, especially when acting on emotions or stress. Repeatedly, history reminds us that when everyone agrees on what the future holds, the market often has other plans.

Coming into 2025, the prevailing wisdom assumed that US equity dominance (or US exceptionalism) was almost a permanent feature of the investment landscape, with little reason to look abroad. Yet, contrary to this complacency, international markets have surged year-to-date, outperforming domestic indices by a wide margin. Consider the absolute certainty with which the year began regarding the macroeconomic and political landscape. The prevailing narrative was that the Department of Government Efficiency (DOGE) was going to fix government spending, slashing debt and deficits in short order. Similarly, the consensus was that inflation was on a clear glide path to 2%, implying that the Federal Reserve would cut rates aggressively and early in 2025. It was assumed that this would open up certain lending-driven markets like housing that have been frozen for the better part of three years. In reality, the machinery of government moved far slower than markets expected, and the dollar, Treasuries, and global markets ended up selling off together in a classic market tantrum. That pressure forced policymakers to shift from trying to push the ten-year treasury rate lower to adopting a more pragmatic “grow your way out” strategy. It’s clear that the debt and deficit situation is not going to be solved overnight, and anyone that came into the year believing there is a fix was caught offsides.

This divergence between narrative and reality was perhaps even more pronounced in specific US stock market sectors. For instance, the Healthcare sector was widely viewed as un-investable coming into the year. Between the "Make America Healthy Again" (MAHA) movement and the threat of aggressive drug price cuts, the fear (or risks) seemed palpable. Yet, the sector proved its defensive resilience, shrugging off political rhetoric to perform better than expected. Entering 2025, there was a perceived inevitability among market participants that Bitcoin would reach exceptional heights. The Trump Administration has indeed fully embraced the crypto industry with friendly regulation, and Congress even passed the GENIUS Act in July, which was a landmark legislation providing a framework for regulating stablecoins. While the regulatory environment did indeed improve, the parabolic move that so many leveraged their portfolios for after the election of President Trump did not materialize in the straight line they expected even as fundamentals improved.

Nowhere was the "consensus trap" more pronounced than in the technology sector. The year began with a loud chorus claiming that Alphabet was way behind in the AI race and possessed no competitive moat. Alphabet demonstrated that their proprietary data is a moat that is difficult to cross – they showed the strategic importance of owning the entire AI stack, effectively controlling the process from the hardware level with their TPUs all the way up to their frontier LLMs. Apple proved that distribution and integration are just as powerful as being first to market. Furthermore, maybe the loudest bear case of the year was that Artificial Intelligence was in the later stages of a bubble. Critics argued that P/E ratios were stretched relative to history and would come crashing down as the hyperscalers stopped spending because the ROI simply wasn't there. The argument was that cheaper, open-source models like Deep Seek (a Chinese LLM) would commoditize intelligence and prick the bubble. Instead, the infrastructure build-out continued unabated, and the bubble did not burst as predicted. The demand for compute remains insatiable, proving that infrastructure cycles are often longer and far more complex than the twelve-month horizon of a typical analyst.

This leads us back to our core philosophy: when everyone is on the same side of the boat, it is usually time to go the other way. We must admit that we do not have a crystal ball, and no one has privileged access to the future. However, we can control how we position ourselves when extremes begin to show. Legendary distressed credit investor and writer Howard Marks stated, “Investment success doesn't come from 'buying good things,' but rather from 'buying things well.'” Coming into 2025, the "sure things" were priced for perfection, leading to suboptimal outcomes for those who leaned too far into them. Conversely, hated, ignored, or misunderstood assets often offer a margin of safety. As we look toward 2026, we remain committed to thinking differently than the consensus. While the market remains fixated on the daily gyrations of the Magnificent 7 and the Ai buildout race, we believe opportunities are set to broaden beyond just a handful of names. Despite the debates over short-term capital expenditures, it is our view that the true scale of the artificial intelligence buildout is still underestimated, especially when considering the massive, multi-year demand for the power, energy, and physical components necessary to run this new global infrastructure. We are moving faster toward an era of radical automation and abundance that represents a far larger impact for the everyday human than ever before. There will inevitably be many winners and losers in this transition, but we are genuinely excited to navigate the opportunities that 2026 holds.

Wishing you and your family a peaceful holiday season,

Dan Grant Jordan

Dan Twogood, RICP®, Grant Twogood, CFP®, Jordan Twogood